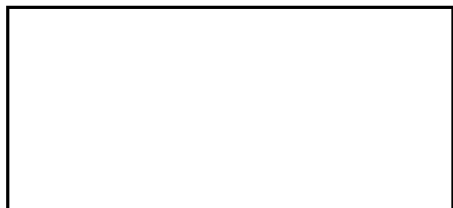
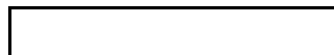


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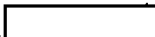
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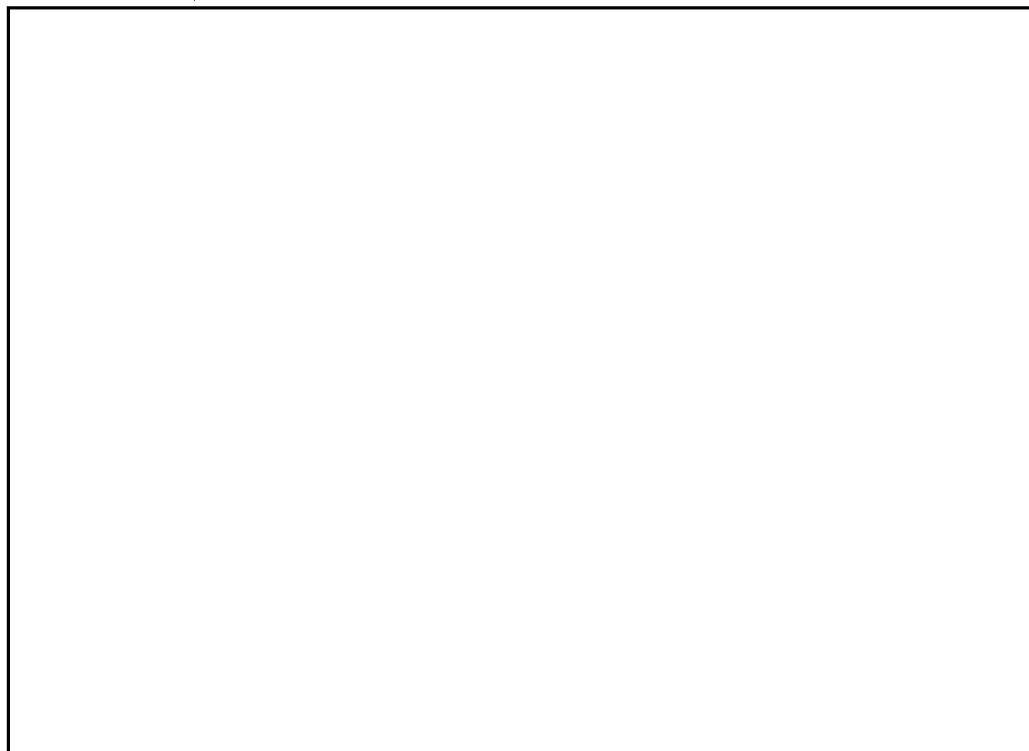
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TOP SECRET

State Dept. review completed

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1. BRITAIN PROPOSES FURTHER RELAXATION OF CHINCOM CONTROLS

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The vigorous British policy statement to CHINCOM on 13 July is an evident move toward a substantive discussion of the China trade control differential,

probably in late August or September. The British delegate considered the existing differential no longer "logical or defensible," and cited the general CHINCOM approval of increasing numbers of exceptions to support his view.

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The British proposal that CHINCOM be kept as a "co-ordinating body for control of those exports to China that are now considered of strategic importance" seems an attempt to maintain the agreement with the US not to revise formally the China lists this year.

In the meantime, Britain evidently will increasingly license "exceptional" shipments to China where the US is the only objector. British shipment of 350 Land Rover jeeps and 50 heavy tractors to China was approved in CHINCOM discussions on 13 July with only the United States expressing opposition. A number of the other delegates indicated that they would regard the action as a precedent for their own trade with China.

The depressed state of the automotive industry in Britain has led to rising parliamentary criticism of the government's adherence to CHINCOM controls.

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2. CHOU EN-LAI SEES PRACTICAL CO-OPERATION AS
PRELUDE TO JAPANESE RECOGNITION

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Chou En-lai's suggestion during a press conference on 15 July that Tokyo and Peiping strive for "actual co-operation" in practical matters is in line with Peiping's recent efforts to increase the number of unofficial contacts with Japanese business and professional groups. Last spring the Chinese renewed an informal fisheries agreement with Japanese fishing interests and an exchange of unofficial trade missions is now under consideration.

Chou commented that such "formal matters" as resumption of diplomatic relations or a treaty could be left in abeyance "for the moment" while practical problems were solved at a lower level. Peiping took the initiative in one such problem late last month by releasing some 300 Japanese "war criminals." The Chinese have promised that additional prisoners will be freed soon.

Peiping's confidence in the eventual success of these tactics in achieving formal recognition is reflected in Chou's comment that he did not believe Premier Hatoyama was entirely opposed to the resumption of diplomatic relations but was "closing one of his eyes" to the problem at present. Chou added that such matters could be settled at a personal meeting with Japanese foreign minister Shigemitsu and pointed out that the Peiping airport was ready for either Shigemitsu or Hatoyama "at any time."

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3. FINNISH-SOVIET BORDER TALKS REPORTED



The American embassy in Helsinki has been informed that President Kekkonen is personally directing talks with the Soviet ambassador regarding border adjustments without the Foreign Ministry's participation. A high Foreign Ministry official has commented that he does not expect the subject to be discussed during Voroshilov's official visit to Finland in mid-August.

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Finnish public reaction to the changed status of the Karelo-Finnish SSR has thus far been slight, with only one paper cautiously commenting that it had some "interesting features."

Comment

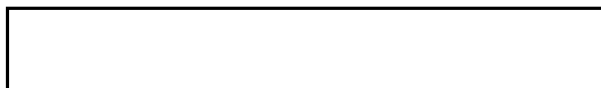
The Izvestia article of 13 July attacking "those who agitate for a revision of the Soviet-Finnish border" is likely to dampen Finnish hopes that a border alteration is imminent. However, the forthcoming talks with the USSR over the status of the Saimaa Canal will provide the Finns with an opportunity to present their case for a broader border adjustment.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 16 July)

Ambassador Lawson in Tel Aviv, noting that the two most prominent Egyptian "fedayeen" terrorist leaders, Colonel Hafez in Gaza and Colonel Mustafa in Jordan, have been victims of explosions during the last week, comments that a comprehensive Israeli plan to cope with the marauder problem may be unfolding. He believes that Secretary General Hammar-skjold, upon his arrival in the area at the end of the week, may be confronted with a more serious and complex situation than previously anticipated. [REDACTED]

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Jordan has charged, meanwhile, that during the night of 14 July an Israeli force estimated at one company of infantry crossed the Jordan-Israel border south of the Dead Sea and reconnoitered Jordanian territory. [REDACTED]

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The British Foreign Office is disturbed over the Israeli attitude toward incidents along the Jordan-Israel border, and is inclined to believe that Israel may again be in process of creating an atmosphere in which to undertake reprisals. Accordingly, the Foreign Office expects to caution Israel anew on the danger of reprisal raids--re-emphasizing Britain's treaty obligations to support Jordan if it is attacked. [REDACTED]

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